

Message Text

LIMITED OFFICIAL USE

PAGE 01 COLOMB 01234 031250Z

53

ACTION XMB-07

INFO OCT-01 NEA-10 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 L-03 DRC-01 /091 W

----- 020648

P 031200Z MAY 74

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 931

LIMITED OFFICIAL USE COLOMBO 1234

EO 11652:N/A

TAGS: ECON, EFIN, CE

SUBJ: GSL REQUESTS DEFERRAL HOTEL INTERCONTINENTAL

EXIMBANK PAYMENTS

SUMMARY: IN DIRECT APPROACH TO AMB, GSL HAS
ASKED THAT EXIMBANK REVIEW RECENT DENIAL FOR DEFERMENT
TO END 1975 OF PAYMENTS DUE TO BEGIN MAY 15 FOR CEYLON
INTERCONTINENTAL HOTEL EXIMBANK LOAN. GSL TAKES POSITION
THAT REQUEST IN NOW WAY HARMS GSL GUARANTEE OF LOAN OR
GENERAL CREDIT WORTHINESS, BUT THAT CIRCUMSTANCES BEYOND
HOTEL IJRPS CONTROL HAVE REDUCED EARNINGS FAVH
THAT EXIMBANK PAYMENTS CANNOT BE FINANCED. WE RECOMMEND
DEPT DISCUSS GSL REQUEST WITH EXIMBANK IN ORDER
WORK OUT SATISFACTORY DEFERRAL ARRANGEMENT.

END SUMMARY.

1. AMB RECEIVED LETTER DATED APRIL 25
FROM W.T. JAYASINGHE, SECRETARY, MINISTRY OF DEFENCE
AND FOREIGN AFFAIRS (MDFA), REQUESTING AMB USE HIS
"GOOD OFFICES" TO PERSUADE EXIMBANK TO REVIEW ITS
DECISION TO DENY PAYMENT TO END 1975 OF INTEREST AND
LOAN PAYMENTS ON INTERCONTINENTAL HOTEL (CIH), DUE
TO BEGIN MAY 15. JAYASINGHE ENCLOSED COPIES OF GSL'S
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COLOMB 01234 031250Z

FIRST REQUEST MADE BY LETTER TO EXIMBANK DATED JAN 14,

1974, SIGNED BY LLOYD WETTASINGHE, CHAIRMAN, HOTEL SERVICES (CEYLON) LIMITED, AND EXIMBANK DENIAL MADE BY LETTER DATED FEB 11, 1974, SIGNED BY MR WARREN W. GLICK, ACTING EXECUTIVE VICE PRESIDENT EXIMBANK.

2. IN SUMMARY, EVIDENCE TO SUPPORT GSL REQUEST AS PRESENTED IN WETTASINGHE'S JAN 14 LETTER WAS AS FOLLOWS:

A) FINAL ANNUAL EARNINGS PROJECTION PROVIDED EXIMBANK AT TIME OF LAST INCREASE OF TOTAL CREDIT TO \$3,363,000 ANTICIPATED GROSS OPERATING PROFIT ABOUT \$514,000, BUT PRESENT 1974 FORECAST IS FOR \$268,000, SHORT BY \$246,000.

B) HOTEL HAS HAD REDUCED OCCUPANCY FOLLOWING FUEL SHORTAGE INDUCED CURTAILMENT OF FLIGHTS AND ADVERSE PUBLICITY DUE TO CHOLERA AND LOCAL FOOD SHORTAGES; EARNINGS LOST: \$118,000.

C) HOTEL WAS FORCED TO REDUCE AVERAGE ROOM RATE BY \$2.50 TO COMPETE FOR BULK TOUR BUSINESS; EARNINGS LOST: \$113,000.

D) OTHER FACTORS INCLUDED REDUCED LOCAL ENTERTAINMENT EARNINGS DUE TO GOVT RESTRICTIONS; REDUCED PERSONAL ENTERTAINMENT BUSINESS DUE TO COUNTRY-WIDE MONTHLY INCOME CEILING; INCREASED DUTY AND TAX BURDEN ON SOME FOOD AND BEVERAGES; DELAY IN OPENING HOTEL IN PART DUE TO MID-1972 US DOCK STRIKE.

3. DAY AFTER JAYASINGHE'S LETTER RECEIVED HE CALLED AMB TO SUGGEST THAT THE WITHHOLD ACTION, WHICH AMB AGREED TO DO. HOWEVER, ON MAY 2 JAYASINGHE AGAIN CALLED AND ASKED AMB TO PROCEED WITH REQUEST AND ALSO SUGGESTED AMB DISCUSS MATTER FURTHER WITH FINANCE SECRETARY COOREY.

4. JAYASINGHE'S LETTER SUMMARIZES ARGUMENTATION GIVEN IN PARA TWO, BUT MAKES ADDITIONAL POINTS:
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COLOMB 01234 031250Z

A) CIH IS ONLY JOINT INVESTMENT BETWEEN CEYLONSE AND FOREIGN INVESTORS WHERE FOREIGN INVESTOR HAS COMPLETE CONTROL OVER MANAGEMENT;

B) IT IS ONLY EXIMBANK PROJECT IN COUNTRY;

C) "...SHORTFALL IN EARNINGS DURING INITIAL

PERIOD OF OPERATIONS HAS BEEN DUE ENTIRELY TO CIRCUMSTANCES BEYOND CONTROL OF SHAREHOLDERS OR HOTEL MANAGEMENT".

5. IN DISCUSSION MAY 3, COOREY EXPLAINED THAT, IN HIS ABSENCE AT ASIAN DEVELOPMENT BANK MEETING, MDFA HAD ASKED AMB TO HOLD UP ACTION ON JAYASINGHE LETTER BECAUSE OF REPORT FROM WASHINGTON THAT EXIMBANK HAD BEEN LUKEWARM TO RECENT APPROACH BY SRI LANKA EMBASSY (PARA 2, STATE 85385). HOWEVER, COOREY REITERATED GSL WISHED RENEW ITS REQUEST WITH EXIMBANK.

6. AMB TOLD COOREY HE, OF COURSE, WOULD FORWARD RBVEEST TO WASHINGTON. HOWEVER, HE WANTED COOREY TO KNOW THAT THIS REQUEST, COMING ON TOP OF RECENT GSL APPROACH TO USG FOR SHORT-TERM LOAN, COULD RAISE QUESTION OF GSL CREDIT POSITION. HE ASKED WHETHER GSL HAD WEIGHED THIS CONSIDERATION, ESPECIALLY SO IN VIEW OF RELATIVELY SMALL AMOUNTS INVOLVED (\$241,000 FOR FIRST PAYMENT DUE MAY 15).

7. COOREY REPLIED THAT ALTHOUGH GSL HAD GUARANTEED CEYLON HOTEL CORPS OBLIGATION TO EXIMBANK, QUESTION OF GSL CREDIT WORTHINESS DID NOT ARISE NOR DID REQUEST TO EMBASSY HAVE ANYTHING TO DO WITH GSL FOREIGN EXCHANGE POSITION. ALL GSL WAS ASKING WAS THAT EXIMBANK TAKE ANOTHER LOOK AT LOAN REPAYMENT SCHEDULE

Z LIGHT OF CHANGED CIRCUMSTANCES.

8. COOREY WENT ON TO EXPLAIN THAT CIH WAS EXCLUSIVELY IN HANDS OF OUTSIDE MANAGEMENT. THIS MANAGEMENT HAD COME TO CONCLUSION THAT BECAUSE OF DEVELOPMENTS OVER WHICH HOTEL HAD NO CONTROL, HOTEL HAD BEEN UNABLE TO GENERATE REVENUES ANTICIPATED IN EARLIER FEASIBILITY STUDIES LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 COLOMB 01234 031250Z

AND PROJECTIONS. CONSEQUENTLY, IT WAS ASKING FOR MORATORIUM OR DEFERRAL OF FIRST THREE REGULAR PAYMENTS SO THAT FIRST PAYMENT WOULD NOT TAKE PLACE UNTIL SEPT 1975. (COOREY ADDED THAT THERE WAS OUTSTANDING BILLING OF INTEREST DUE DURING CONSTRUCTION OF \$102,000 WHICH GSL PLANNED TO SETTLE WITHIN NEXT FEW DAYS.)

9. AMB TOLD COOREY THAT HE COULD NOT HOLD OUT SPECIFIC ASSURANCES THAT WE WOULD BE ABLE TO INTERVENE WITH EXIMBANK OR THAT, EVEN IF WE DID, WE WOULD ACHIEVE POSITIVE RESULTS. NONETHELESS, AMB SAID HE WAS PERSONALLY SYMPATHETIC TO PROBLEM WHICH HAD ARISEN AND WOULD FORWARD GSL REQUEST TO WASHINGTON.

10. LATER SAME DAY (MAY 3) AMB RECEIVED LETTER

FROM JAYASINGHE (PRESUMABLY AS RESULT COOREY-JAYASINGHE CONVERSATION) STATING THAT REQUEST FOR DEFERRAL BY SHORT PERIOD WAS BECUASE ORIGINALLY ANTICIPATED EARNINGS HAD NOT BEEN REALIZED FOR REASONS BEYOND CONTROL HOTEL SERVICES (CEYLON) LTD. THE WAS "SEPARATE AND INDEPENDENT OF ANY CONSIDERATION CONNECTED WITH THE ISSUE OF CREDIT WORTHINESS. THE CREDIT WORTHINESS OF THE GOVT WOULD BE AN ISSUE ONLY IF GOVT FAILYLTO HONOR OR REFUSES TO HONOR THE UNCONDITIONAL GUARANTEE ALREADY GIVEN. THIS, AS YOU KNOW, IS NOT THE POSTION".

11. COMMENT: IN VIEW OF CIRCUMSTANCES CITED BY JAYASINGHE AND COOREY, RECOMMEND DEPT DISCUSS DEFERRAL REQUEST WITH EXIMBANK IN HOPE WE CAN WORK OUT SATISFACTORY ARRANGEMENT TO RELIEVE HOTEL SERVICES (CEYLON) LTD. FROM PAYMENTS UNTIL SEPT 1975.
VAN HOLLEN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: HOTELS, BANK LOANS, DEBT REPAYMENTS, CIH, CEYLON INTERCONTINENTAL HOTEL
Control Number: n/a
Copy: SINGLE
Draft Date: 03 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974COLOMB01234
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740106-0855
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740577/aaaacrbq.tel
Line Count: 186
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2002 by shawdg>; APPROVED <14 JAN 2003 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GSL REQUESTS DEFERRAL HOTEL INTERCONTINENTAL EXIMBANK PAYMENTS
TAGS: ECON, EFIN, CE, XMB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005